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April 29, 1998

EX PARTE OR LATE FILED

Magalie R. Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

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APR 29 1998

RE: EX PARTE COMMUNICATION
CC Docket No. 96-45

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Madame Secretary:

The enclosed *ex parte* communication dated April 22, 1998 was sent to Chairman Kennard by Phoebe Forsythe Isales, President of the Telecommunications Regulatory Board of Puerto Rico, regarding Universal Service. Ms. Isales also met with Chairman Kennard regarding this matter on April 8, and an *ex parte* letter was subsequently filed.

Respectfully submitted,



Veronica M. Ahern
Counsel to the Telecommunications
Regulatory Board of Puerto Rico

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GOVERNMENT OF PUERTO RICO
TELECOMMUNICATIONS REGULATORY
BOARD OF PUERTO RICO

EX PARTE OR LATE FILED

April 22, 1998

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M St., NW
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**RE: Proposed Transition Plan for Universal Service
Ex Parte Communication; CC Docket 96-45**

Dear Chairman Kennard:

I would like to thank you for our meeting on April 8, 1998. In conjunction with this meeting you suggested that we begin a dialogue on how to best address the Universal Service needs in Puerto Rico. This letter addresses your suggestion; it includes a brief outline of a transition program that continues the existing support for universal service and begins a process whereby all eligible telecommunications providers in Puerto Rico receive sufficient and predictable high cost support to further the universal service goals of both the FCC and the Puerto Rico Telecommunications Regulatory Board.

As I reported in our meeting, the 1998 High Cost Fund and Long Term Support Fund will provide over \$145 million in support for Puerto Rico. This equates to \$10.20 per 1996 access line per month. Based upon our examination, we believe the default proxy cost models cannot possibly reflect the variety and high cost aspects of the island of Puerto Rico. Using the anticipated benchmarks of \$31/\$51 per line, the default Hatfield 5.0s total annual support is \$1 million and the default BCPM 3 total annual support is \$36 million. A flash-cut reduction of universal service support of this magnitude will certainly have a severe impact on Puerto Rico's penetration rate, already the lowest in the nation.

Moreover, the models under consideration do not appear to reflect the expected forward-looking economic costs for Puerto Rico. As we discussed, one of the many problems currently with the models is the lack of reliable data pertaining to the location of businesses and residents.

In light of the foregoing, the Board recommends for your consideration the following outline for the transition to a forward-looking support mechanism for

eligible telecommunications carriers ("ETCs") on the island to ensure the continued overall availability of reasonably priced telecommunications services for all Puerto Rico consumers.

- 1) The FCC should allow Puerto Rico to postpone conversion to forward-looking support for a transition period of no less than three years. The Board knows of the decision made by the FCC in the Universal Service Order (FCC 97-157 at paragraph 315) not to delay the use of forward-looking support mechanism for Puerto Rico and other non-rural carriers in insular areas. However, the Board cites the considerable uncertainty currently surrounding the accuracy of the proxy cost models for Puerto Rico, and recommends that a waiver postponing conversion to forward-looking support be considered. The FCC at paragraph 315 retained the ability to "grant waivers of this [conversion] requirement in appropriate cases". This action would continue existing support for Puerto Rico in a similar manner to other insular, rural and high cost areas.
- 2) The Board is communicating with the Department of Commerce, Bureau of the Census in Puerto Rico. The Population and Economic Census are conducted on the island but with lesser degrees of accuracy on the exact location of residences and businesses. Preparations for the decennial census in 2000 are underway and a greater degree of accuracy (street location and geo-coding) will be available even before January 2000. The Economic Census currently collects location information based upon the "municipio", which is similar to a county on the mainland. There is currently no effort underway to improve the location accuracy of this data for the 2002 Economic Census. Due to budgetary considerations in Washington, there is not much support for improving the Economic Census for Puerto Rico. The Board will continue to monitor the efforts of the Department of Commerce and recommends using the more accurate residential location data when it becomes available as early as next year.
- 3) The Board will give consideration to how ETCs, other than the incumbent local exchange carrier, would receive support for their primary business and residential telephone lines. We are considering the following procedure that assures portability and competitive neutrality under the existing support mechanisms:

- a) Consistent with the procedures adopted for non-rural and rural carriers in the Universal Service Order, payments will be portable to other ETCs in Puerto Rico. (Universal Service Order, at paragraphs 286-290, and 311-313). The procedure allows ETCs to file support requests with USAC based upon the number of customers they serve. Support for these customers will be based upon the per line support currently received by the incumbent. We believe that this method adequately provides support for all ETCs. We note that this procedure is currently available to the ETCs on the island under the rules outlined at paragraph 286-290. The conversion postponement simply extends the current procedures until the modeling effort is sufficient and predictable.
 - b) To the extent that an ETC considers the per line support level to be too low, the ETC would be able to seek additional support from the Puerto Rico Universal Service Fund. The Board would determine any additional support needs based upon the cost information provided by the requesting ETC. The Board will initiate a process during this year of selecting an administrator and beginning a Puerto Rico Universal Service Fund.
- 4) The Board seeks to make the transition to a forward-looking methodology with minimal adjustment cost of the consumers in Puerto Rico. Thus we recommend that we work closely to the FCC in developing a suitable model which accounts for the issues specific to Puerto Rico, including the rural character of many parts of the island, the terrain throughout the island, and the vagaries of the weather in the Caribbean region. After the results of a model appropriately reflect the actual forward-looking economic cost of Puerto Rico, we would then recommend a suitable transition to forward-looking support. The Board anticipates that the modeling effort during the next three years will result in a more accurate characterization of forward looking costs and that the transfer to the forward looking economic costs support will produce minimal consumer impact for Puerto Ricans.

These four items satisfy the requirements of the Board to assure the continued development of healthy competition in Puerto Rico's local exchange markets and advance our mutual universal service objectives. I would personally like to thank you for your assistance and interest in these matters. Please review these items

with your staff. We would appreciate your comments and support in these recommendations.

Sincerely,



Phoebe Forsythe Isales
President